

Message Text

LIMITED OFFICIAL USE

PAGE 01 LIMA 07107 192233Z
ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 FRB-03 COME-00
CIAE-00 INR-07 NSAE-00 PA-01 PRS-01 L-03 /077 W
-----108843 192238Z /70

P 192200Z AUG 77
FM AMEMBASSY LIMA
TO SECSTATE WASHDC PRIORITY 6258

LIMITED OFFICIAL USE LIMA 7107

E.O. 11652: N/A
TAGS: EFIN, PE
SUBJECT: GOP MOVES FOR BALANCE OF PAYMENTS SUPPORT

REF: LIMA 7011

1. LIMA PRESS AUGUST 18 REPORTS DEPARTURE OF PERUVIAN ECONOMIC MISSION FOR NEW YORK AND WASHINGTON (REFTEL) AND QUOTES CENTRAL BANK PRESIDENT DE LA MELENA TO EFFECT THAT MISSION WILL RE-ESTABLISH CONTACTS WITH THE IMF BUT THAT "FOR THE MOMENT THERE WILL NOT BE ANY NEGOTIATIONS." (BARRETO IS NOT ON MISSION. OTHER MEMBER IS FERNANDO OTERO, ECONOMIST WITH NATIONAL PLANNING INSTITUTE.)

2. THERE ARE SOME REPORTS THAT THESE PRELIMINARY DISCUSSIONS WITH IMF (PROBABLY ON SATURDAY, AUGUST 20) MIGHT PROBE THE FUND'S FLEXIBILITY ON THREE KEY ISSUES: THE EXCHANGE RATE, INTEREST RATE STRUCTURE, AND THE "ALLOWABLE" SIZE OF THE BUDGET DEFICIT. IT IS UNDERSTOOD THAT THE GOP TEAM MAY FLOAT THE IDEA OF A MULTI-TIERED EXCHANGE RATE, PROPOSE GENERAL INCREASED IN THE INTEREST RATE STRUCTURE TO REATTRACT SAVINGS TO THE BANKING SYSTEM, AND A REDUCTION IN
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LIMA 07107 192233Z

THE 1977-78 CENTRAL GOVERNMENT BUDGET DEFICIT OF A SIZE WHICH TAKES INTO ACCOUNT PERU'S SOCIAL AND POLITICAL CONDITION.

3. IN WHAT COULD BE CONSIDERED A CONCRETE GESTURE TO THE IMF, THE GOP AUGUST 16 APPROVED NEW DECREE LAW (NO. 21913 PUBLISHED AUGUST 18--COPY POUCHED ARA/AND)

WHICH REDUCES 1977 PUBLIC SECTOR BUDGET BY ADDITIONAL 4.7 BILLION SOLES (APPROXIMATELY \$59 MILLION - BOUT 2.3 PERCENT OF ORIGINAL FIGURE.) THIS REDUCTION IS ON TOP OF 8 PERCENT ACROSS THE BOARD PUBLIC SECTOR BUDGET REDUCTION ANNOUNCED IN JUNE AS PART OF THE PIAZZA AUSTEERITY PACKAGE, AND HELPS REDUCE PUBLIC SECTOR DEFICIT TO APPROXIMATELY 50 BILLION SOLES FOR THIS YEAR. IN CONTRAST TO EARLIER ACROSS THE BOARD MEASURES NEW DECREE LAW AFFECTS SELECTED MINISTRIES AND PUBLIC ENTERPRISES, WITH ENERGY, INDUSTRY, AGRICULTURE, AND TRANSPORTATION MINISTRIES TAKING THE HEAVIEST (IN PERCENTAGE TERMS) CUTS, ALTHOUGH DEFENSE EXPENDITURES WILL ALSO BE REDUCED--CONSIDERABLY, ACCORDING TO NAVY MINISTER PARODI IN A RECENT CONVERSATION WITH THE AMBASSADOR.

4. FURTHER EVIDENCE THAT PERU IS GOING IMF ROUTE IS GIVEN IN DRAFT COMMUNIQUE APPARENTLY TO BE USED BY PERUVIAN EMBASSIES IN SELECTED CAPITALS TO EXPLAIN CURRENT ECONOMIC THINKING OF GOP. IN THIS DOCUMENT (GIVE TO EMBASSY BY VISITING U.S. BANK REP) THE GOVERNMENT EMPHASIZES ITS INTENTIONS TO RESUME IN A VERY SHORT TIME NEGOTIATIONS WITH THE IMF FOR A STAND-BY AND TO MEET ITS EXTERNAL DEBT OBLIGATIONS ON SCHEDULE.

5. THE PERUVIAN MISSION GOES TO THE U.S. AT A TIME LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LIMA 07107 192233Z

WHEN RUMORS ARE WIDESPREAD OF A FINANCIAL CRUNCH. IT IS REPORTED THAT THE GOP HAD DIFFICULTY IN RENEGOTIATING A \$75 MILLION OBLIGATION COMING DUE TO A GROUP OF GERMAN BANKS HEADED BY THE DRESDNER BANK, AND THE EMBASSY HAS RECEIVED INDICATIONS OF SLOW PAYMENT BY THE GOP ON ACCOUNTS DUE TO BECHTEL (\$2.7 MILLION DOLLARS FOR OVERSIGHT OF THE OIL PIPELINE) AND ON OUTSTANDING OBLIGATIONS TO U.S. COMMERCIAL BANKS BY GOP STATE-OWNED ENTERPRISES (E.G. PEPESCA). ALTHOUGH EMBASSY TENDS TO DISCOUNT IT, STORY IS ALSO CIRCULATING HERE THAT PHILIPP BROTHERS HAS OFFERED TO ACCEPT PLEDGE OF 15 TONS OF PERUVIAN GOLD AGAINST \$45-50 MILLION LOAN AT 8 PERCENT INTEREST. THIS STORY IS AT LEAST CONSISTENT WITH WHAT BANKERS TELL US IN SERIOUS SHORT-TERM CRISIS HERE. CENTRAL BANK HAS SOME \$50 MILLION ON HAND OR IN PROSPECT TO COVER OBLIGATIONS OF SEVERAL TIMES THAT AMOUNT COMING DUE IN COMING WEEKS. MEANWHILE AT LEAST ONE LENDING U.S. COMMERCIAL BANK HAS ALREADY REDUCED ITS SHORT TERM LINES OF CREDIT TO PERUVIAN COMMERCIAL BANKS BY 80 PERCENT AND OTHERS MAY FOLLOW SUIT IF GOP MISSION TO U.S. BANKING COMMUNITY UNSUCCESSFUL.

6. DESPITE THE SOMEWHAT DISPARATE RANGE OF ATTITUDES
TOWARD PERU WHICH WE HAVE OBSERVED AMONG U.S.
BANK OFFICIALS (FROM THE RELATIVELY HARD LINE TAKEN
BY THE BANK OF AMERICA TO THE OSTENSIBLY SOFTER LINE
ADOPTED BY CITIBANK) THERE DOES SEEM TO BE A
CONSENSUS ON ONE MAJOR POINT; IF PERU IS TO HAVE
ANY REASONABLE CHANCE FOR SUCCESS IN ARRANGING A
SUBSTANTIAL NEW LOAN PACKAGE WITH U.S. COMMERICAL
BANKS IT MUST FIRST OBTAIN IMF ASSISTANCE.
SHLAUDEMAM

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETINGS, BANKERS
Control Number: n/a
Copy: SINGLE
Sent Date: 19-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LIMA07107
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770300-0838
Format: TEL
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770844/aaaablfw.tel
Line Count: 126
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a31c0358-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 LIMA 7011
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 06-Apr-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1550953
Secure: OPEN
Status: NATIVE
Subject: GGOP MOVES FOR BALANCE OF PAYMENTS SUPPORT
TAGS: EFIN, PE, IMF
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/a31c0358-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009